

CIA/OER/S-06656-74 **RESPONSE TO QUESTIONS POSED BY NORVILL JONES**
SECRET/NFD **01 OF 01**

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6 CIN/CDR/S-46656-74

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Response to Questions Posed by Norvill Jones

1. Please describe the CIA's participation in the decision-making process concerning any aspect of US military sale policy.

CIA does not participate directly in the decision-making process involving US military sales programs. The Agency's participation is confined to providing background studies and data on foreign military aid and sales programs and on economic factors such as the balance-of-payments of foreign countries. Most of this work takes the form of contributions to inter-agency studies. (U)

2. What, if any, type of analysis of the threat faced by a foreign purchaser, or the intentions of a purchaser, is the CIA called upon to provide? If such analyses are provided, please furnish copies of such documents.

CIA does not produce finished intelligence reports dealing exclusively with threats faced by foreign arms purchasers, or the intentions of such purchasers. Obviously such threats or intentions influence a nation's arms acquisition programs. These factors enter agency assessments. Normally, they comprise a part of our overall evaluation, and are considered in the context of other relevant factors. Copies of pertinent CIA arms studies are being furnished to you under item 6 of your request. Portions of some of these reports deal with the motivations and rationale behind particular arms procurement programs. (S)

3. Please provide pertinent data concerning the arms sales activities of major Western arms suppliers (Great Britain, France, Germany, Italy, etc.), including, but not limited to, the following information for each:

a. Dollar volume of sales for each of the last five years;

See Appendix A, Tables 1 and 2. Data currently available cover the period 1970-73 for sales to the Third World and 1971-73 for worldwide sales.

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b. Major types of equipment currently sold and the relative share of the Western supplied market for each category;

See Appendix B

c. Volume of arms sales relative to overall defense spending (or other indices to relate the importance of sales to local defense spending policy);

See Appendix A, Table 3

d. Estimates of volume and terms of credit extended for arms purchases relative to cash sales (latest year);

Specific data on this subject are unavailable, although some generalizations can be made. By the beginning of the 1960s, in an effort to revitalize their sagging arms industries, West European arms producers began placing more emphasis on arms exports, particularly on the growing arms markets in the LDCs. As part of their sales promotion, European arms exporters began to offer favorable credit terms in lieu of cash sales, generally requiring an average of seven years to repay at interest rates averaging about 5%. Many foreign governments aid their arms exporters by providing assistance in financing the purchases. The French Treasury is directly involved in such activities. Credit guarantees for military sales also are provided by the Office National du Ducroire in Belgium, the Export Credit Guarantee Department in the United Kingdom, the Compagnie Francaise D'Assurances pour le Commerce Exterieur in France, Hermes in West Germany, the Ministry of Finance in the Netherlands, and the National Bank in Switzerland. Many exporters grant special concessions to certain buyers, such as offsetting part of the cost of arms with purchases of local goods and services. (U)

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c. Restrictions on third country transfers or similar restrictions imposed by the selling country.

Western countries, while promoting arms sales, also impose standard and ad hoc controls. Standard restrictions usually are designed to protect patents and licenses, to maintain security, and to prevent reexport of arms. The chief instrument of control used by all Western countries is the export license. Most governments of supplier countries require that the arms remain in the purchasing country, and consequently many exporters require end-use certificates. Several countries insist that clauses restricting the resale of equipment be written into sales contracts. (U)

During the past year, several West European countries have relaxed some of the restrictions previously imposed on arms sales. Contract clauses that prohibited the transfer of equipment to third countries now are being either omitted or ignored. For example, Saudi Arabia and Kuwait ordered Mirage aircraft from France in the past 18 months, with the understanding that the aircraft could be transferred to Egypt. Abu Dhabi purchased Mirages for possible transfer to Pakistan. In addition, West Europeans are willing to sell modern weapons systems to countries they previously did not do business with: France sold the SS-11 antitank missile system to Egypt, and the UK offered Cairo surface-to-air missile equipment. (S/NFD)

4. For arms transfers by the Soviet Union, please provide the following information:

a. Arms transfers to (1) Eastern Europe, and (2) major recipients outside Eastern Europe for each of the last five years;

Data on Soviet arms transfers to Eastern Europe for the period 1972-1973 are provided in Appendix A, Table 4. Transfers to the Third World for the period 1969-1973 are provided in Table 5.

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b. An analysis of the terms of transfer (grant, barter, cash, credit terms) to major recipients of Soviet arms outside of Eastern Europe. Please give particular attention to terms offered on arms transactions with countries where there is competition from Western suppliers.

Soviet arms are usually priced lower than comparable Western equipment and, in addition, are sold at discounts averaging about 40% from list prices. Cash sales make up only 5% of Soviet exports; the remainder is financed with credits of 8 to 10 years, after grace periods of 1 to 3 years, at 2%-2.5% interest. The USSR generally accepts payment in goods and often eases the terms when a recipient is unable to make its payments. (U)

For a statistical breakout of the grant and credit portions under Soviet military agreements see the statistical supplement of Aid and Trade Activities of Communist Countries in Less Developed Areas of the Free World, 1973 (EIC R-14-S28-S, February 1974), Table 5. (S/NFD)

c. How many Soviet technicians, by country, are currently working in military advisory or similar roles outside of Eastern Europe. Are their services normally paid for by the host country.

See Appendix A, Table 6. Also see Aid and Trade Activities of Communist Countries in Less Developed Areas of the Free World, 1973 (EIC R-14-S28, March 1974, p. 5-6. (S/NFD) and Department of State Research study, Communist States and Developing Countries: Aid and Trade in 1973, October 1974 p. 12. (U)

d. Describe the Soviet organization for, and activities in connection with, the promotion of arms sales. In what countries are the Soviets actively promoting arms sales in competition with Western suppliers, and what terms are being offered?

Soviet arms exports are administered by the Chief Engineering Directorate (GIU), which is subordinate to the State Committee for Economic Relations (GKES). The GIU supplies the arms and handles all contract negotiations. It also coordinates with the Soviet Ministry of Defense

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on the types and quantities of arms to be provided and with the External Relations Directorate of the General Staff on the technical assistance required by the purchaser. The GIU, in consultation with the Ministry of Foreign Trade and the Ministry of the Maritime Fleet, also arranges for the shipment of the equipment. For a discussion of Soviet Western arms competition, see Recent Trends in the Global Arms Flow to the Third World, ER IX 74-22, September 1974. (S/NFD)

e. What types of Soviet military aircraft are in active sales competition with U.S. or other Western aircraft? Please supply numbers of each type sold, by country, in competition with U.S. or other Western suppliers.

We do not believe that Soviet military aircraft are, in fact, in direct sales competition with Western military aircraft in the Third World countries. More than ever before, diversification apparently underlies Third World procurement philosophy. For example, there are several countries that are in the market and are looking at Soviet and Western military aircraft. In the Middle East, both Libya and Egypt have recently purchased French Mirages while continuing to seek Soviet MIG-23 FLOGGERS. Although Mirages and FLOGGERS have similar operational capabilities, indications are that Libya and Egypt want the MIG-23 in addition to the French aircraft. India is currently looking at several supersonic jet fighters including the Jaguar, the British Harrier, and the US A-4. Pakistan, in an effort to upgrade its helicopter inventory, is considering the purchase of Soviet MI-8s and Anglo-French Puma and Lynx helicopters. Moscow has reportedly offered MIG-21 and SU-7 jet fighters to several Latin American countries, the latest being to Peru, but US F-5s, Mirages, and Jaguars are preferred and should continue to dominate the market.

5. Please provide data concerning arms sales by Eastern European countries (other than the Soviet Union) and the People's Republic of China for each of the last five years.

See Appendix A, Tables 7 and 8.

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6. Please provide copies of any recent CIA studies relating to arms transfers.

All relevant studies are identified above. The Department of State study is an unclassified version which we furnish the Department of the basic USIB EIC Study on Communist Aid.

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Table 1

Western Europe: Arms Sales to the Third World,
by Exporter 1/

	Million US \$				
	<u>1970-73</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
TOTAL	5,745	1,520	1,165	835	2,225
United Kingdom	2,390	575	535	230	1,050
France	1,875	690	400	250	530
Italy	625	80	25	185	335
West Germany	605	130	100	140	235
Netherlands	105	5	45	5	45
Belgium	55	5	25	5	15
Other 2/	95	35	30	15	15

1. The data in this table represents sales and aid commitments and are to be differentiated from arms exports. Data have been rounded to the nearest \$5 million.
2. Including Austria, Denmark, Norway, Portugal, Spain, Sweden, and Switzerland.

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Table 2

Western Europe: Arms Sales World Wide,
by Exporter 1/

	Million US \$			
	1971-73	1971	1972	1973
TOTAL	5,980	2,010	1,370	2,600
United Kingdom	2,075	675	315	1,085
France	2,075	980	550	545
Italy	585	30	185	370
West Germany	740	140	170	430
Netherlands	155	100	10	45
Belgium	75	40	20	15
Other	275	45	120	110

1. Data have been rounded to nearest \$5 million.

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Table 3

Military Sales as a Percentage of the Defense Budget

	Military Budget FY 74	Military Sales CY 1973	Million US \$	%
United Kingdom	8,400 1/	1,085		13
France	7,662	545		7
Italy	3,700	370		10
West Germany	9,712	430		4
Netherlands	2,134	45		2
Belgium	1,009 1/	15		1

1. Data only available for FY 1973.

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Table 4

Estimated Soviet Exports of Military Hardware
to Eastern Europe 1/

<u>Country</u>	<u>1972 2/</u>	<u>1973 3/</u>	Million US \$
Bulgaria	65- 93	100-133	
Czechoslovakia	141-171	184-220	
East Germany	311-352	386-436	
Hungary	59- 81	108-134	
Poland	213-244	259-298	
Romania	67- 78	71- 85	
Yugoslavia	29- 36	35- 44	

1. The method used for estimating shipments assumes that Soviet statistics on total exports to Eastern Europe include military shipments. A residual is calculated which discloses the difference between the reported total and the sum of the values of items exported to each country. This residual represents an upper limit for the value of Soviet military shipments. Since the residuals conceivably contain other non-military exports, correction factors of 1% and 3% have been deducted from each country's residual. This yields the range of estimates within which Soviet military exports, by and large, are believed to fall.
2. One ruble = \$1.21
3. One ruble = \$1.35

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Table 5

Soviet Military Deliveries to the Less Developed Countries a/
1969-1973

<u>Recipient</u>	<u>Total</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	Million US \$
TOTAL	4,924	452	993	837	789	1,853	
Afghanistan	138	35	25	15	17	46	
Algeria	51	1	20	25	5	--	
Bangladesh	29	--	--	--	--	29	
Cambodia	2	2	--	--	--	--	
Congo	5	--	--	5	--	--	
Egypt	1,780	90	640	350	250	450	
Equatorial Guinea	Negl.	--	Negl.	Negl.	Negl.	--	
Guinea	15	--	--	5	8	2	
India	698	127	81	180	156	154	
Indonesia	1	1	--	--	--	--	
Iran	363	60	50	75	73	105	
Iraq	493	52	35	30	80	296	
Lebanon	3	--	--	--	3	--	
Libya	125	--	35	39	27	24	
Mali	2	--	--	1	Negl.	1	
Morocco	2	--	--	--	--	2	
Nigeria	15	10	3	1	1	--	
Pakistan	17	14	1	--	1	1	
Peru	5	--	--	--	--	5	
Somalia	35	5	7	1	6	16	
Sri Lanka	2	--	--	2	--	--	
Sudan	58	15	40	3	--	--	
Syria	1,035	35	50	100	150	700	
Uganda	1	--	--	--	--	1	
Yemen (Aden)	45	4	4	5	11	21	
Yemen (Sana)	3	1	2	--	--	--	
Zambia	1	--	--	--	1	--	

a. Does not include Cuba, North Vietnam, or North Korea.

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Table 6

Soviet Military Technicians in Less Developed Countries 1/
1973

	<u>Persons</u>
TOTAL	5,970 2/
Afghanistan	425
Algeria	650
Bangladesh	100
Congo	30
Egypt	520 3/
Equatorial Guinea	10
Guinea	110
India	300
Iran	60
Iraq	785
Libya	10
Mali	10
Morocco	10
Nigeria	700
Somalia	20
Sudan	1,780
Syria	25
Uganda	225
Yemen (Aden)	130
Yemen (Sana)	

1. Soviet military technicians normally are paid by their host country. These figures are minimum estimates of the number of persons present for a period of one month or more. Numbers are rounded to the nearest five.
2. Includes some East Europeans.
3. Most of these arrived with the equipment supplied after the outbreak of the October 1973 War.

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Table 7

Eastern European Arms Agreements with
Third World Countries

<u>Recipient</u>	<u>1969-73</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>Million US \$</u>
TOTAL	476	95	46	109	146	80	
Afghanistan	2	--	--	--	--	2	
Congo	Negl.	--	--	--	Negl.	Negl.	
Cyprus	2	--	--	1	--	1	
Egypt	92	37	7	15	20	13	
India	92	6	2	60	2	22	
Iran	6	--	--	--	1	5	
Iraq	129	25	--	16	83	5	
Lebanon	3	--	--	--	Negl.	3	
Libya	25	--	5	5	9	6	
Nigeria	10	9	--	--	1	--	
Pakistan	16	--	--	--	16	Negl.	
Sudan	6	6	--	--	--	--	
Syria	83	12	30	10	11	20	
Tanzania	3	--	--	--	--	3	
Yemen (Aden)	4	--	--	2	2	--	
Yemen (Sana)	3	--	2	--	1	--	

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Table 8

PRC Arms Agreements with Third World Countries

<u>Recipient</u>	<u>1969-73</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>Million US \$</u>
TOTAL	237	3	63	76	78	17	
Burundi	2	--	--	--	2	--	
Cambodia	N.A.	N.A.	--	--	--	--	
Congo	5	1	2	Negl.	1	1	
Equatorial Guinea	Negl.	--	--	--	Negl.	--	
Guinea	6	--	--	6	--	--	
Iraq	Negl.	--	--	Negl.	--	--	
Mali	Negl.	--	--	Negl.	--	--	
Pakistan	175	--	40	60	65	10	
Sierra Leone	3	--	--	3	--	--	
Sri Lanka	6	--	--	5	1	--	
Sudan	8	--	--	--	8	--	
Syria	2	2	--	--	--	--	
Tanzania	30	--	21	2	1	6	
Zambia	Negl.	--	--	--	Negl.	--	

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APPENDIX B

Equipment

The equipment offered to the Third World covers the entire range of conventional weaponry, from simple quartermaster items to the latest supersonic jet fighters as shown in the following tabulation.

**Major Military Equipment Delivered
to the Third World, by Exporter, 1973**

	<u>Units</u>				
	<u>Total</u>	<u>United States</u>	<u>Western Europe</u>	<u>USSR</u>	<u>Eastern Europe</u>
					<u>PRC</u>
<u>Aircraft</u>					
Jet bombers	15	1	--	14	--
Jet fighters	811	227	142	425	--
Transports	72	36	31	5	--
Helicopters	333	199	76	58	--
Other, non-jet combat aircraft, trainers, utility	277	219	49	--	6
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<u>Land armaments</u>					
Medium tanks	2,739	514	191	1,634	250
Light tanks	111	--	13	14	28
Artillery	1,311	611	132	351	--
Armored personnel carriers (APCs) and armored cars	1,908	821	113	944	30
					--
<u>Naval ships</u>					
Cruisers, destroyers, and escorts	28	21	6	1	--
Submarines	12	10	--	2	--
Minesweepers	7	4	1	2	--
Missile patrol boats	12	--	6	6	--

Most of the equipment is new, either from current production or reserve stocks. In emergencies, as during the October Middle East war, equipment may even be diverted from delivery to line units of the donor country. The once lucrative market for used equipment is declining.

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The United States and the USSR, and to a lesser extent the United Kingdom and France, are capable of providing a full range of military equipment. Other exporters usually specialize in one or two major items. In recent years, Canadian sales have centered on transport aircraft, Italy has marketed jet trainers and helicopters, and Belgium infantry weapons.

The demand for increasingly sophisticated equipment is most evident in 1973 sales of aircraft and missile systems. Three jet fighters were sold to the Third World for the first time: the US F-14 fighter, the Soviet MIG-23 fighter, and the French F-1 Mirage fighter. The F-14 and F-1 fighters are just entering the inventories of the suppliers, and the Soviet MIG-23 has not yet been exported to Warsaw Pact countries. The mainstay of the fighter export market, however, remains the Soviet MIG-21, followed by the US F-5 and the French Mirage III and Mirage 5. Fighters represented more than half of all aircraft sold to LDCs in 1973.

The success of the Soviet surface-to-air missiles and Soviet and US antitank missiles in the Middle East war increased the already heavy demand for missile systems. At least 33 LDCs have some guided missile capacity ranging from the relatively simple air-to-air missiles to the latest TV-guided weapons. Five new missile systems were exported in 1973. Most notable was the delivery of the Soviet Scud surface-to-surface missile in Egypt during the October war. Libya became the first Third World country to deploy the French Crotale surface-to-air missile and the British Swingfire antitank missile. The British supplied Redtop air-to-air missiles to Kuwait, and Brazil purchased the Franco-German Roland surface-to-air missile.